STRATEGIES FOR ADDRESSING REVERSIONARY RIGHTS

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Peter J. Kirsch
Definition - Reversion

- Upon expiration of the term of a lease, the ownership of the permanent improvements made by the lessee reverts to the lessor (airport sponsor) or improvements must be demolished or removed at lessee’s cost.
The law

▪ Sponsor must maintain good title (49 USC 47106(b)(1) and Grant Assurance 4)
▪ Sponsor cannot take action that may deprive it of its rights and powers to direct and control airport development (Grant Assurance 5)
▪ Options to acquire title are unacceptable (Order 5190.6B ¶ 6.3(b))
▪ Lease term must be reasonably necessary to amortize tenant’s investment (Order 5190.6B ¶ 12.3(b)(3))
▪ Title to improvements must vest in sponsor at lease end (Order 5190.6B ¶ 12.3(b)(5))
The real world

- It’s my hangar
- I put blood sweat and tears into my hangar
- My hangar is my man cave
- I invested in my hangar
- It has always been my hangar
- You can’t take my hangar
- …and so on
Impermissible work arounds – at lease end

- Sponsor must acquire improvements
- Tenant can pay reduced rent after reversion
- Sponsor must remove improvements
- Sponsor pays fair market value of improvements
- Assignments/ transfers to extend lease term
Management pointers

- Know status of each lease improvement
- Prepare tenants *long in advance* for reversion
- Watch for deliberate damage to improvements
- Bright line
- No exceptions for convenience, friendship, loyalty
- Appraise FMV (not depreciated value) at lease end; reset lease rate
Discussion